

Message Text

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ACTION EUR-08

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C O N F I D E N T I A L ROME 2527

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: EC JOINT ACTION TO SMOOTH EXCHANGE RATE FLUCTUATIONS

REF: EC BRUSSELS 01368 DATED 18 FEBRUARY 1975

1. IN REGARD TO REPORTED EC JOINT AGREEMENT TO SMOOTH
OUT FLUCTUATIONS OF EUROPEAN CURRENCIES AGAINST DOLLAR
AND POSITION REPORTEDLY TAKEN BY ITALIAN AUTHORITIES ON
THIS MATTER (REFTEL), RECENT DATA ON AMPLITUDE OF
FLUCTUATIONS IN DOLLAR/LIRA EXCHANGE RATE MAY BE OF INTEREST.

2. DURING PERIOD JANUARY 1, 1974 TO FEBRUARY 7, 1975,
THERE WERE 267 DAYS OF EXCHANGE MARKET TRADING IN ITALY.
DAILY FLUCTUATION EQUAL TO OR GREATER THAN 6 LIRE PER DOLLAR
WOULD REPRESENT APPROXIMATELY 1 PERCENT LIMIT CITED IN
REF. DISTRIBUTION OF DAILY FLUCTUATIONS OF 6 LIRE PER
DOLLAR OR MORE ARE SUMMARIZED BELOW:

3. DAILY FLUCTUATION	NUMBER	PERCENT OF TOTAL
IN NUMBER OF LIRE	OBSERVED	TRADING DAYS
6-7	2	.750
7-8	1	.375
8-9	5	1.875
9-10	6	2.250

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GREATER THAN 10 1 .375

SUB-TOTAL, GREATER
THAN 6 15 5.618

SUB-TOTAL, LESS
THAN 6 252 94.382

GRAND TOTALS 267 100.000

4. RELATIVELY SMALL PERCENTAGE (5.6 PERCENT) OF TRADING DAYS REGISTERING 1 PERCENT OR MORE EXCHANGE RATE FLUCTUATION IS DUE IN LARGE PART TO PERSISTENT BANK OF ITALY (BOI) INTERVENTION DURING THIS PERIOD WHEN LIRA WAS GENERALLY WEAK IN ORDER TO LIMIT INFLATIONARY EFFECT OF LIRA DEVALUATION AND BECAUSE OF DOUBTS ABOUT UTILITY OF LARGE DEVALUATION IN FACE OF ASSUMED LOW PRICE ELASTICITIES OF IMPORTS. GOI INTERVENTION POLICY WAS (AND STILL APPEARS TO BE) BASED MAINLY ON ATTENTION TO MOVEMENTS IN BOI WEIGHTED AVERAGE INDEX OF LIRA EXCHANGE RATE VIS-A-VIS MAIN TRADING PARTNERS AS A GROUP, WHILE PERMITTING LIRA EXCHANGE RATE TO DEPRECIATE AT LEAST IN LINE WITH OTHER RELATIVELY WEAK CURRENCIES SUCH AS POUND STERLING AND FRENCH FRANC (AT LEAST IN PART OF PERIOD).
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